



P.O. Box 2749  
Sacramento, CA 95812-2749  
Telecommunications Device for the Deaf - (916) 795-3240  
(916) 795-3400

December 15, 2008

## **AGENDA ITEM 8**

### **TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE**

- I. SUBJECT:** Policy Review and Consolidation Project – Revision of Ethics Policies
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Recommend to the Investment Committee
  - a. Approval of the revised Statement of Investment Policy on Insider Trading
  - b. Approval of the revised Statement of Investment Policy on the Consultant Conflict of Interest Protocol

### **IV. ANALYSIS:**

#### **Background**

The objectives of the Policy Review Project are (1) to organize and streamline Investment Policy to improve access, clarity and transparency, (2) to provide a consistent Investment Policy framework, and (3) to ensure that the policies will facilitate the on-going CalPERS compliance program.

On June 18, 2007, Investment Office staff presented to the Investment Committee the building blocks for the project. This included the revised policy template, which is designed to provide consistency across policies, and the new Table of Contents (Attachment 1), which is designed to reflect a top-down and cross-asset class organizational approach. Finally, to facilitate the top-down approach, staff presented and the Committee approved a new overarching Statement of Investment Policy for the Total Fund.

The Policy Review Project entails a detailed review of each policy with the goal of updating and streamlining the policy, as well as potential consolidation with other related policies. In addition to these goals, the review and revisions include the following:

- Removal of delegations from policy. During the Delegations Project, staff reviewed all policies, minutes, and delegations to identify and consolidate delegations. Delegations are now located in consolidated documents.
- Removal of operational and procedural language, which is now located in staff internal procedure manuals.
- Conformance to the new template, where appropriate.

The review is a joint effort and includes input from the Committee's General Pension Consultant, Wilshire Associates, the CalPERS Legal Office, and the Enterprise Office of Compliance.

The policies are being brought forward to the Policy Subcommittee on a phased basis. To date, the Policy Subcommittee has reviewed and approved revisions to the following policy categories: Total Fund Statement of Investment Policy, Asset Allocation, Fixed Income, Global Equity, Investment and Risk Management, Operations, and Alternative Investments.

The policies being presented in this item are part of the "Ethics" policies.

Clean and blacklined versions are provided for each policy, unless otherwise stated below. As a general rule, the revised policies are not changed substantively. Substantive changes that were deemed necessary at this time have been highlighted for the Subcommittee's convenience below.

Staff recommends approval of the following revised policies: Insider Trading (Attachment 2) and Consultant Conflict of Interest (Attachment 3). Wilshire's opinion letter for the policies presented in this item is included as Attachment 4.

### **Revised Statement of Insider Trading Policy**

Substantive changes have been made to the Insider Trading Policy. Due to the number of changes, staff has provided only a clean version of this policy for review. For the Committee's convenience, staff has provided a copy of the existing Insider Trading Policy. A few highlights of the changes are:

- The policy defines "Restricted Person" and is intended to cover all those persons who have access to confidential investment information.

- The policy now clearly states that if Board members (acting in their capacities as Board members) or employees (acting within the scope of their employment) possess material, nonpublic information, it will generally be treated as if the information is possessed by CalPERS itself and by all Restricted Persons. The policy thus emphasizes the importance of Board members and employees avoiding the possession of material nonpublic information.
- The policy provides clearer guidance on which CalPERS trades can be appropriately exempted from the policy, consistent with federal law, and memorializes exceptions for some trades in transitions accounts.

Staff recommends that the Policy Subcommittee approve the new Insider Trading policy.

#### **Revision of Consultant Conflict of Interest Policy**

The policy was edited for clarity and to conform to the new template. Staff recommends that the Policy Subcommittee approve revisions to the Consultant Conflict of Interest Policy.

#### **Other Ethics Policies**

The Healthcare Investment Initiative Inter-Program Conflict of Interest Protocol (HII Protocol) is not being presented for Subcommittee action. The HII Protocol is still relatively new and the policy has not been tested long enough to assess whether its content should be modified. Until AIM has more experience with the HII Protocol, Investment and Legal Staff agreed that it would be better to make no changes to the HII Protocol at this time.

### **V. STRATEGIC PLAN:**

This item is consistent with the Strategic Plan: Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and second to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

There are no material costs associated with this agenda item.

---

Gina Ratto  
Deputy General Counsel

---

Peter Mixon  
General Counsel

---

Anne Stausboll  
Interim Chief Investment Officer